

Economic Analysis

JOLTS: Labor Market Conditions Stable in July

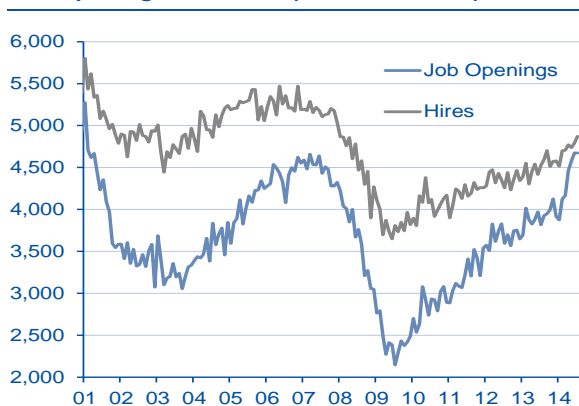
Kim Fraser Chase

The Job Openings and Labor Turnover Survey (JOLTS) for July 2014 showed little change in the health of the labor market following significant improvement throughout the past few months. Job openings for the month remained steady at 4673K compared to the slightly revised 4675K in June. While this monthly change is insignificant, the level of job openings has officially surpassed the pre-recession peak, suggesting that at least one aspect of the labor market has fully recovered. However, total hires remain weak at only two-thirds the highest level seen before the crisis. The JOLTS report has held increasing importance throughout the past few months, even more so than the usual employment reports, as Fed Chair Janet Yellen strengthens her emphasis on monitoring “other” indicators. Labor market slack and employment underutilization are just a few of the terms she has thrown around lately to highlight her views on the current stance of the economy and, ultimately, convey her dovish approach to monetary policy accommodation. Looking forward, we expect Yellen and her FOMC colleagues to continue on the path of increased communication and transparency regarding the impact of incoming economic data on monetary policy accommodation. However, it is unlikely that this JOLTS report will offer much in the way of advancing the FOMC’s strategy. Furthermore, the significant deceleration in employment growth for August suggests that the month’s JOLTS report will show little improvement.

Retail Sales Accelerate in August on the Back of Growing Auto Demand

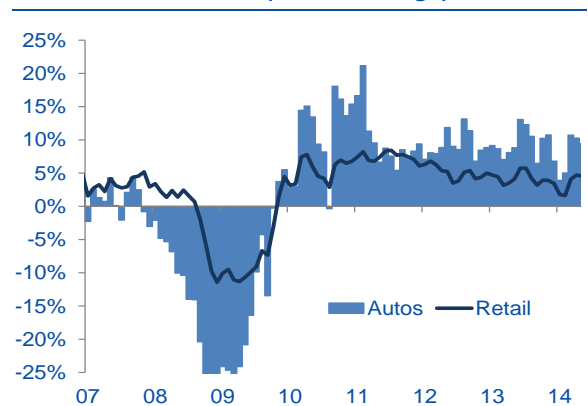
Retail sales increased 0.6% in August following an upwardly revised 0.3% gain in July. Auto sales were the primary driver, up 1.5% for the first time since March, and finally reflected the significant gains seen in Autodata’s unit vehicle reports throughout the past few months. Excluding autos, retail sales increased 0.3%, dragged down by weakness in gasoline station sales (-0.8%). Given the ongoing downward pressure on oil prices, it is not surprising that nominal gasoline sales would be low, and we could see this trend continue into September as well. Excluding both autos and gas, retail sales increased a healthy 0.5%, on par with the average growth seen during the prior four months. Overall, we expect that retail sales will continue to expand at a modest pace as we get through the back-to-school period and approach the early holiday shopping season.

Graph 1
Job Openings and Hires (SA, Thousands)



Source: Bureau of Labor Statistics & BBVA Research

Graph 2
Retail and Auto Sales (YoY % Change)



Source: U.S. Census Bureau & BBVA Research

Week Ahead

Empire State Manufacturing Survey (September, Monday 8:30 ET)

Forecast: 12.75

Consensus: 15.90

Previous: 14.69

The Empire State Manufacturing Survey has reached multi-year highs in recent months and we expect that the index will remain in double-digits for September. General business conditions peaked in July and then decelerated slightly in August, but most of the components remain strong. In particular, new orders have held near the highest levels seen since May 2011 or earlier, influencing significant gains in shipments throughout the same period. The employment components of the index have also shown strong improvement and should continue along at a relatively stable pace throughout the coming months.

Industrial Production (August, Monday 9:15 ET)

Forecast: 0.5%

Consensus: 0.3%

Previous: 0.4%

Industrial production is expected to increase in August at a slightly faster pace than in July as manufacturing activity continues to gain momentum. Various surveys for the sector have reported accelerating growth in production, with a significant contribution coming from the auto industry. When it comes to the other major components of the industrial production index, we expect to see another month of modest gains for mining but a third consecutive decline for utilities output as we transition from the demands of warmer summer weather to a more temperate fall. Ultimately, these drivers should keep total industrial output growing at a steady pace throughout the next few months.

Consumer Price Index, Core (August, Wednesday 8:30 ET)

Forecast: 0.0%, 0.1%

Consensus: 0.0%, 0.2%

Previous: 0.1%, 0.1%

CPI inflation is back to where we started in early 2014, with prices decelerating in July following a few months of relatively strong growth. In August, we expect that inflation will again remain low for both the headline and core figures, with YoY growth likely to decline slightly from July's rates. The headline figure continues to be driven heavily by energy prices, and a third consecutive month for declines in both crude oil and natural gas will put downward pressure on the CPI for August. Excluding food and energy, core inflation is unlikely to show a significant upward trend, mostly due to the fact that end-of-summer and back-to-school promotions probably kept price pressures at bay for the month.

Housing Starts and Building Permits (August, Thursday 8:30 ET)

Forecast: 1080K, 1045K

Consensus: 1040K, 1045K

Previous: 1093K, 1057K

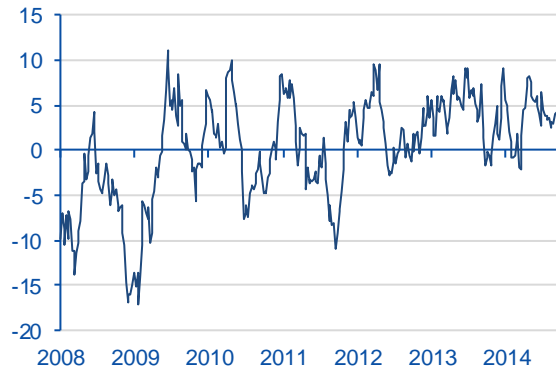
Housing starts and building permits are unlikely to show much improvement in August after recouping some losses in the prior month. Both increased significantly in July following two consecutive months of decline, yet a lot of this was simply due to pent up demand. In August, we expect to see a minor correction for such strong gains, with both figures likely to come in slightly lower than July's estimates. However, we remain optimistic that the housing sector will continue to move in the right direction as demand for new homes gradually improves.

Market Impact

Markets are preparing for the upcoming FOMC meeting and may be overly sensitive to economic data throughout the week. In particular, inflation and housing indicators could warrant significant market reaction if the data stray too far from consensus expectations.

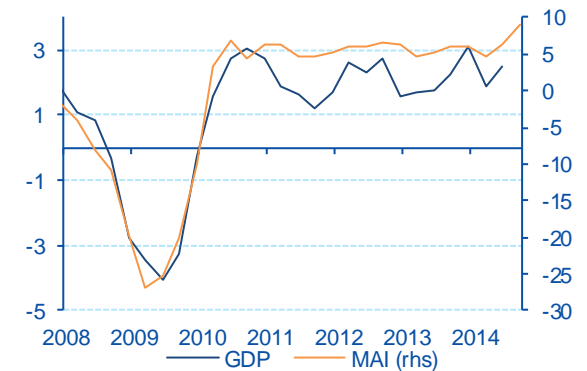
Economic Trends

Graph 3
BBVA US Weekly Activity Index (3 month % change)



Source: BBVA Research

Graph 4
BBVA US Monthly Activity Index & Real GDP (4Q % change)



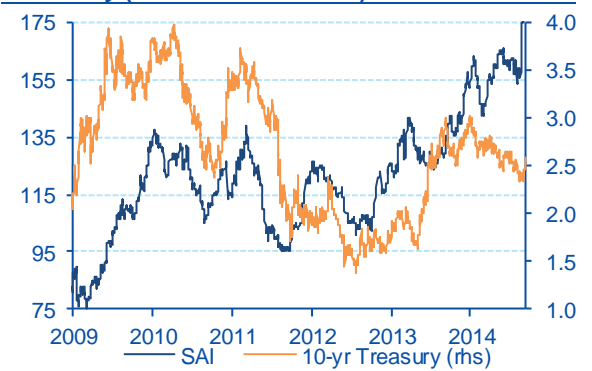
Source: BBVA Research & BEA

Graph 5
BBVA US Surprise Inflation Index (Index 2009=100)



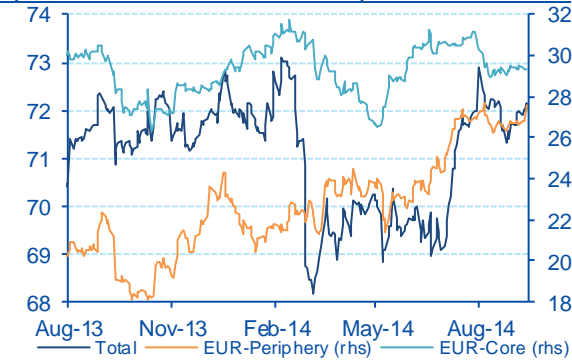
Source: BBVA Research

Graph 6
BBVA US Surprise Activity Index & 10-yr Treasury (Index 2009=100 & %)



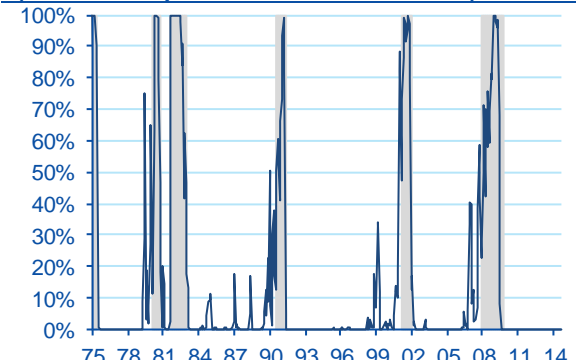
Source: Bloomberg & BBVA Research

Graph 7
Equity Spillover Impact on US (% Real Return Co-Movements)



Source: BBVA Research

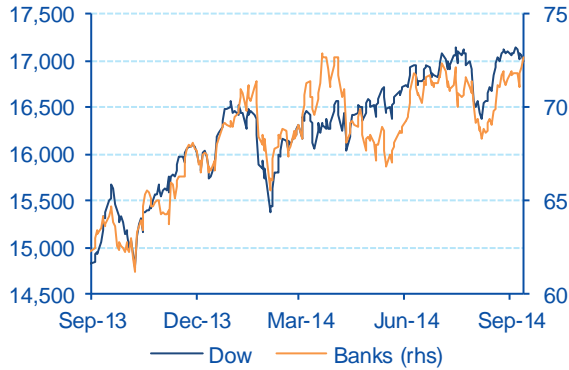
Graph 8
BBVA US Recession Probability Model (Recession episodes in shaded areas, %)



Source: BBVA Research

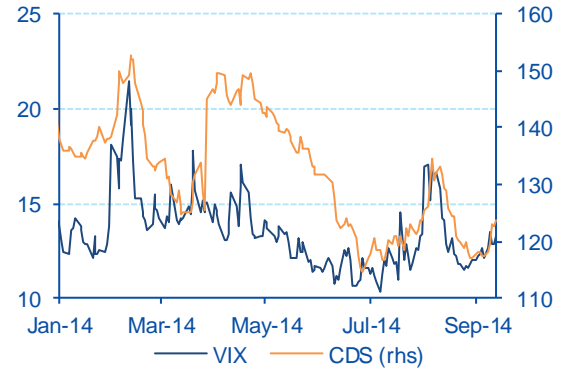
Financial Markets

Graph 9
Stocks
(Index, KBW)



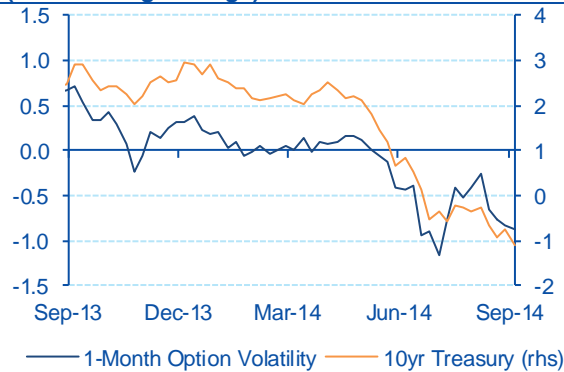
Source: Bloomberg & BBVA Research

Graph 10
Volatility & High-Volatility CDS
(Indices)



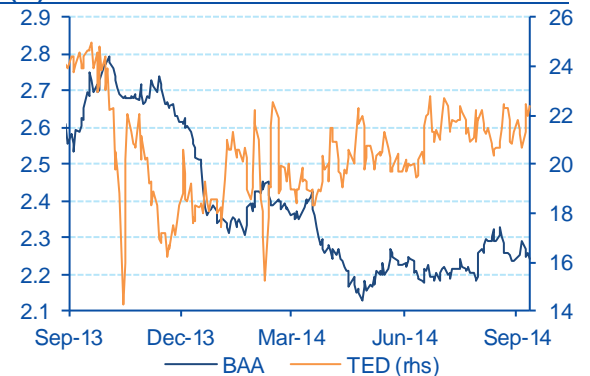
Source: Bloomberg & BBVA Research

Graph 11
Option Volatility & Real Treasury
(52-week avg. change)



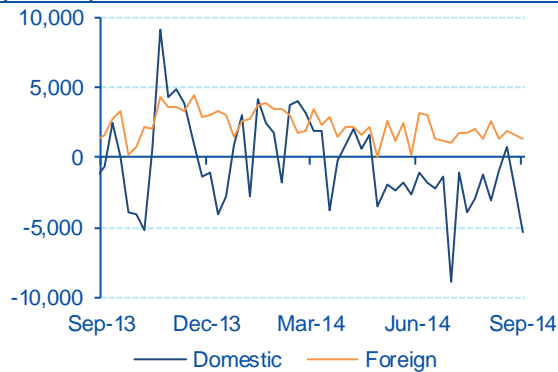
Source: Haver Analytics & BBVA Research

Graph 12
TED & BAA Spreads
(%)



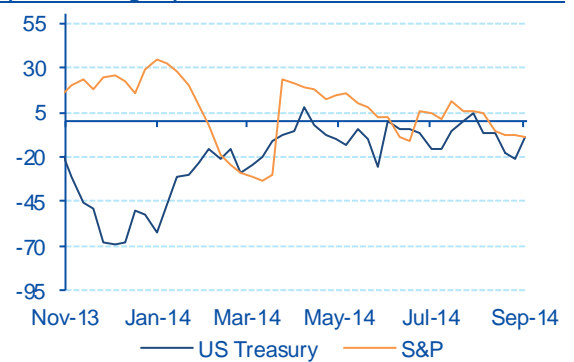
Source: Bloomberg & BBVA Research

Graph 13
Long-Term Mutual Fund Flows
(US\$Mn)



Source: Haver Analytics & BBVA Research

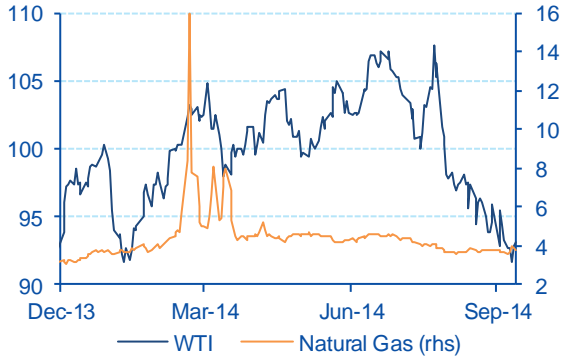
Graph 14
Total Reportable Short & Long Positions
(Short-Long, K)



Source: Haver Analytics & BBVA Research

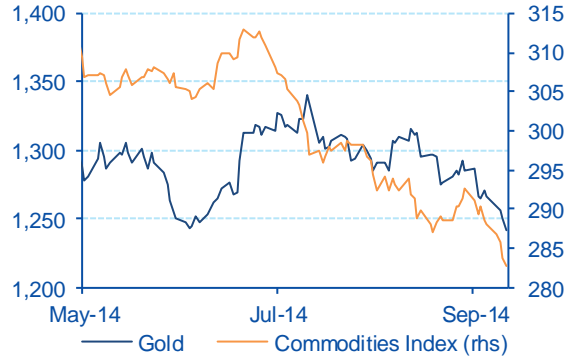
Financial Markets

Graph 15
Commodities
(Dpb & DpMMBtu)



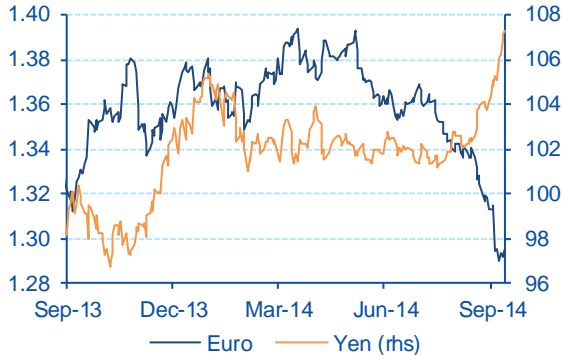
Source: Bloomberg & BBVA Research

Graph 16
Gold & Commodities
(US\$ & Index)



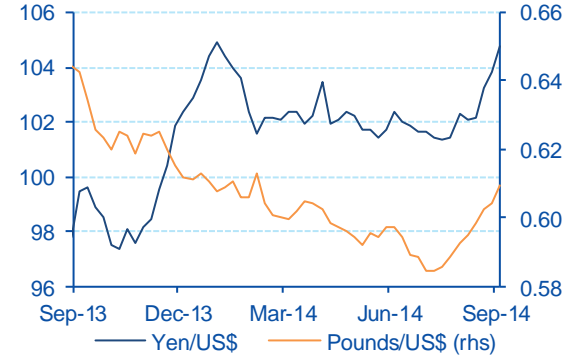
Source: Haver Analytics & BBVA Research

Graph 17
Currencies
(Dpe & Ypd)



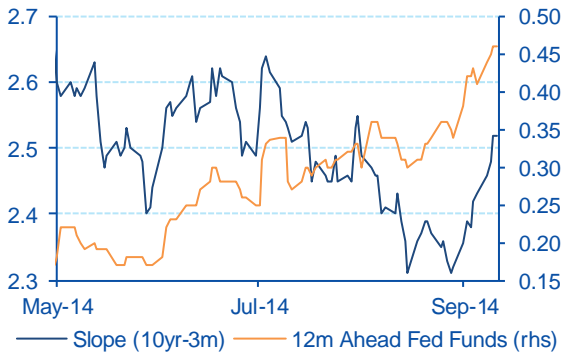
Source: Bloomberg & BBVA Research

Graph 18
6-Month Forward Exchange Rates
(Yen & Pound / US\$)



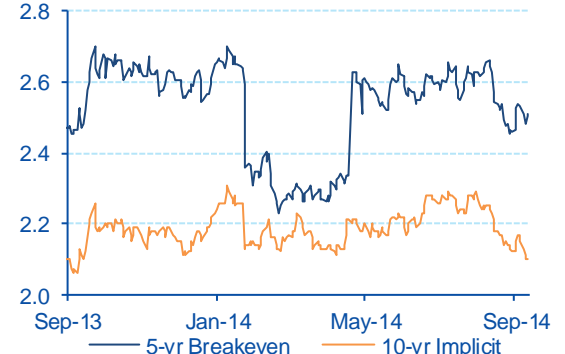
Source: Haver Analytics & BBVA Research

Graph 19
Fed Futures & Yield Curve Slope
(% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 20
Inflation Expectations
(%)



Source: Bloomberg & BBVA Research

Interest Rates

Table 1
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	14.86	14.86	14.86	14.10
New Auto (36-months)	2.93	2.93	2.91	2.43
Heloc Loan 30K	4.81	4.80	4.94	5.23
5/1 ARM *	2.99	2.97	2.97	2.90
15-year Fixed Mortgage *	3.26	3.24	3.24	3.23
30-year Fixed Mortgage *	4.12	4.10	4.12	3.99
Money Market	0.40	0.40	0.38	0.41
2-year CD	0.87	0.83	0.85	0.78

*Freddie Mac National Mortgage Homeowner Commitment US
Source: Bloomberg & BBVA Research

Table 2
Key Interest Rates (%)

	Last	Week ago	4-Weeks ago	Year ago
1M Fed	0.09	0.09	0.09	0.08
3M Libor	0.23	0.23	0.23	0.25
6M Libor	0.33	0.33	0.32	0.38
12M Libor	0.58	0.56	0.55	0.65
2yr Sw ap	0.79	0.72	0.63	0.53
5yr Sw ap	1.95	1.82	1.70	1.78
10Yr Sw ap	2.72	2.58	2.49	3.00
30yr Sw ap	3.31	3.20	3.11	3.82
30day CP	0.12	0.12	0.11	0.12
60day CP	0.11	0.11	0.11	0.15
90day CP	0.13	0.13	0.13	0.15

Source: Bloomberg & BBVA Research

Quote of the Week

Larry Summers

Former Obama Economic Adviser Larry Summers Calls to Lift Oil-Export Ban

9 September 2014

“The president has spoken often of his commitment to act if Congress will not and his determination to use executive authority to the fullest extent. If necessary, it should be used to remove restrictions on the export of oil.”

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
15-Sep	US Empire State Manufacturing Survey General Business Conditions SA	SEP	12.75	15.90	14.69
15-Sep	US Industrial Production MoM2007=100 SA	AUG	0.50	0.30	0.44
15-Sep	US Capacity Utilization % of Total Capacity SA	AUG	79.30	79.30	79.20
15-Sep	US Industrial Production Industry Groups Manufacturing MoM SA	AUG	0.50	0.10	1.00
16-Sep	US PPI Final Demand MoM SA	AUG	-0.10	0.10	0.10
16-Sep	US PPI Final Demand Less Foods and Energy MoM SA	AUG	0.10	0.10	0.20
17-Sep	US CPI Urban Consumers MoM SA	AUG	0.00	0.00	0.09
17-Sep	US CPI Urban Consumers Less Food & Energy MoM SA	AUG	0.10	0.20	0.10
17-Sep	National Association of Home Builders Market Index SA	SEP	56.00	56.00	55.00
17-Sep	Federal Funds Target Rate US	SEP 17	0.25	0.25	0.25
17-Sep	US FOMC Agency Mortgage Backed Security Purchases	SEP	5.00	5.00	10.00
17-Sep	US FOMC Treasury Purchase Program Pace Announced at FOMC Meeting	SEP	10.00	10.00	15.00
18-Sep	US Initial Jobless Claims SA	SEP 13	310.00	305.00	315.00
18-Sep	US Continuing Jobless Claims SA	SEP 6	2495.00	--	2487.00
18-Sep	US New Privately Owned Housing Units Started by Structure Total SAAR	AUG	1080.00	1040.00	1093.00
18-Sep	Private Housing Authorized by Bldg Permits by Type Total SAAR	AUG	1045.00	1045.00	1057.00
18-Sep	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	SEP	19.30	23.00	28.00
19-Sep	Conference Board US Leading Index MoM	AUG	0.50	0.40	0.90

Forecasts

	2011	2012	2013	2014	2015	2016	2017
Real GDP (% SAAR)	1.8	2.8	1.9	2.0	2.5	2.8	2.8
CPI (YoY %)	3.1	2.1	1.5	1.9	2.2	2.3	2.4
CPI Core (YoY %)	1.7	2.1	1.8	2.0	2.1	2.3	2.4
Unemployment Rate (%)	8.9	8.1	7.4	6.3	5.9	5.8	5.5
Fed Target Rate (eop, %)	0.25	0.25	0.25	0.25	0.50	1.50	2.50
10Yr Treasury (eop, % Yield)	1.98	1.72	2.90	3.00	3.50	3.75	4.00
US Dollar/ Euro (eop)	1.31	1.31	1.37	1.31	1.29	1.36	1.36

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